

## Message Text

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ACTION EB-08

INFO OCT-01 EA-10 ISO-00 CAB-02 CIAE-00 COME-00  
DODE-00 DOTE-00 INR-07 NSAE-00 FAA-00 L-03 SP-02  
H-01 /034 W  
-----074621 201956Z /44  
R 200518Z JAN 78  
FM AMEMBASSY CANBERRA  
TO SECSTATE WASHDC 2218  
INFO AMEMBASSY WELLINGTON

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E.O. 11652: N/A  
TAGS: EAIR, AS  
SUBJECT: CIVAIR - CONSULTATIONS WITH NEW ZEALAND AND AUSTRALIA

REF: (A) STATE 13747, (B) CANBERRA 0099 (NOTAL),  
(C) 77 CANBERRA A-138 (NOTAL)

1. AUSTRALIA HAS FORMALLY OBJECTED TO CONTINENTAL ROUTE FILING IN LETTER DELIVERED JANUARY 20. LETTER WAS TO HAVE BEEN FOLLOWED WITHIN 48 HOURS BY DELIVERY IN WASHINGTON OF DIPLOMATIC NOTE FORMALLY REQUESTING CONSULTATIONS ON FEBRUARY 13. HOWEVER, AUSTRALIANS ARE PRESENTLY CONSIDERING REQUEST REFTTEL A FOR CONSULTATIONS TO BEGIN FEBRUARY 20. INITIAL AUSTRALIAN REACTION TO FEBRUARY 20 DATE WAS THAT IT WOULD PROBABLY BE ACCEPTABLE.

2. IN CONSIDERING AUSTRALIAN LETTER AND IN PREPARING FOR CONSULTATIONS, IT WILL BE HELPFUL TO BEAR IN MIND AUSTRALIAN BIASES REGARDING COMPETITION. AUSTRALIANS FIRMLY BELIEVE THAT UNRESTRAINED COMPETITION LEADS TO HIGH AIR FARES; WE BELIEVE THE OPPOSITE. NUB OF DIFFERENCE LIES IN CONCLUSIONS AS TO ECONOMIC CONSEQUENCES OF LOW UTILIZATION RATES.

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3. AUSTRALIANS ARE INTRIGUED BY OUR APPROACH TO GREATER COMPETITION (REF B) THOUGH THEY ARE AT PRESENT APPROACHING REVIEW OF THEIR OWN AIR SERVICES IN FASHION OUTLINED ABOVE (REF C). THUS, THERE IS A ROLE FOR U.S. ECONOMIC ANALYSES DEMONSTRATING THE BENEFICIAL EFFECTS WHICH WE BELIEVE ARISE FROM FREER ENTRY OF ADDITIONAL CAPACITY. IF AUSTRALIANS CAN BE PERSUADED THAT COMPETITION INVOLVING EXCESS CAPACITY IS

NOT INCONSISTENT WITH LOWER COST AIR TRAVEL, PROBLEM OF QANTAS SHARE OF TOTAL FLIGHTS WILL BE SOMEWHAT MORE EASILY GRAPPLIED WITH.

4. TEXT OF LETTER FOLLOWS, WITH INTRODUCTORY PARAGRAPH OMITTED.

"AS YOU WILL KNOW, LATE LAST YEAR OUR RESPECTIVE GOVERNMENTS APPROVED NEW SCHEDULE FILINGS FOR SERVICES OPERATED BETWEEN AUSTRALIA AND USA BY PAN AMERICAN WORLD AIRWAYS INC AND QANTAS AIRWAYS LTD RESULTING IN AN INCREASE OF SIX PERCENT IN THE TOTAL NUMBER OF SEATS OFFERED AND INCREASING TOTAL WEEKLY FLIGHTS FROM FOURTEEN TO SIXTEEN.

"OUR LETTER OF 29 SEPTEMBER 1977 ADVISED THAT ANY INCREASES IN CAPACITY MUST BE CLOSELY RELATED TO TRAFFIC REQUIREMENTS AND THAT THE MINISTER FOR TRANSPORT WAS OF THE FIRM VIEW THAT THAT CAPACITY INCREASE REPRESENTED THE MAXIMUM LEVELS ACCEPTABLE TO THE AUSTRALIAN GOVERNMENT IN THE FORESEEABLE FUTURE.

"THE MINISTER FOR TRANSPORT HAS INDICATED THAT THE AUSTRALIAN GOVERNMENT, MINDFUL OF THE NEED TO MAXIMIZE THE EFFICIENT USE OF RESOURCES, REMAINS SERIOUSLY CONCERNED ABOUT THE DETRIMENTAL IMPACT THAT THE OPERATION OF EXCESS CAPACITY COULD HAVE ON OPPORTUNITIES FOR ECONOMICALLY VIABLE LIMITED OFFICIAL USE

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LOW COST AIR TRAVEL.

"THE AUSTRALIAN AUTHORITIES NOTE THAT THE FILING OF CONTINENTAL AIRLINES INC PROVIDES FOR THE INTRODUCTION IN MARCH 1978 OF FOUR FREQUENCIES PER WEEK BETWEEN LOS ANGELES AND SYDNEY USING DC10 AIRCRAFT. THE PROPOSED FLIGHTS WOULD HAVE THE EFFECT OF INTRODUCING A 19 PERCENT INCREASE IN SEATING CAPACITY IN ADDITION TO THAT PROVIDED CURRENTLY BY PAN AMERICAN AND QANTAS. WHEN TAKEN IN CONJUNCTION WITH THE CAPACITY INCREASES APPROVED LATE LAST YEAR, THE ADDITION OF CONTINENTAL'S PROPOSED CAPACITY OF 1036 SEATS PER WEEK WILL INCREASE THE LEVEL OF TOTAL SEATING CAPACITY OPERATED ON AUSTRALIA/USA SERVICES BY 25 PERCENT COMPARED WITH THAT OFFERED IN MARCH 1977.

"ON EXAMINING THE TRAFFIC TRENDS FOR THE AUSTRALIA-USA PASSENGER MARKET FOR THE PERIOD 1977/79 THE AUSTRALIAN AUTHORITIES HAVE CONCLUDED THAT TRAFFIC GROWTH CANNOT BE EXPECTED TO MATCH THIS SUBSTANTIAL CAPACITY INCREASE.

"IT IS ALSO NOTED THAT, IN TERMS OF THE PROPOSED FREQUENCY ARRANGEMENTS, THE UNITED STATES' DESIGNATED

CARRIERS SEEK TO OPERATE A TOTAL OF THIRTTEN PASSENGER  
FLIGHTS PER WEEK AS AGAINST SEVEN SUCH SERVICES CURRENTLY  
APPROVED FOR THE AUSTRALIAN DESIGNATED CARRIER. THIS  
FREQUENCY PATTERN WOULD BKESTOW A FREQUENCY ENTITLEMENT  
FAVORING THE UNITED STATES' DESIGNATED CARRIERS BY A FACTOR  
OF ALMOST TWO TO ONE.

"ON THE BASIS OF THESE CONSIDERATIONS, THE AUSTRALIAN  
GOVERNMENT HAS CONCLUDED THAT THE SCHEDULE FILING OF  
CONTINENTAL AIRLINES INC IS INCONSISTENT WITH THE PROVISIONS  
OF SECTION III OF THE ANNEX TO THE AUSTRALIA-USA AIR SERVICES  
AGREEMENT.

"THIS ADVISE CONSTITUTES A FORMAL OBJECTION TO THIS  
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FILING PURSUANT TO THE PROVISIONS OF THE 1971 MEMORANDUM OF  
UNDERSTANDING ON PROCEDURES FOR SCHEDULE FILINGS." ALSTON

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** AGREEMENTS, CIVIL AVIATION, NEGOTIATIONS  
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**Decaption Date:** 01 jan 1960  
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**Disposition Approved on Date:**  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Original Previous Classification:** n/a  
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**Reference:** 78 STATE 13747, 78 CANBERRA 99, 77 CANBERRA A-138  
**Retention:** 0  
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**Review Event:**  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014